

DEPARTMENT OF BUSINESS ASSISTANCE

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2009 AND JUNE 30, 2010**



AUDIT SUMMARY

Our audit of the Department of Business Assistance (Business Assistance) for the years ended June 30, 2009, and June 30, 2010, found:

- proper reporting of financial information in the Commonwealth's Accounting and Reporting System;
- certain matters requiring management's attention involving internal control and its operations;
- an instance of non-compliance with applicable laws and regulations or other matters that is required to be reported; and
- progress in taking corrective action or resolution for audit findings reported in the prior audit.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
AGENCY BACKGROUND	3-4
FINANCIAL HIGHLIGHTS	5-6
INDEPENDENT AUDITOR’S REPORT	7-8
AGENCY RESPONSE	9
AGENCY OFFICIALS	10

AUDIT FINDINGS AND RECOMMENDATIONS

Our prior report included various findings related to improving internal controls. As part of this review, we followed up on the status of these findings and summarized progress in the following table. For unresolved findings, we have included additional information on progress made.

Status of Prior Year Findings

<u>Prior Year Finding</u>	<u>Status of Finding</u>
Shift to an Administrative Service Arrangement	Limited progress made
Complete the Agency's Information Security Program	Significant progress made
Maintain Official Records	Resolved
Document Procedures Over the Solicitation and Expenditure of Non-State Resources	Resolved

Shift to an Administrative Service Arrangement – Risk Alert

During the course of our audits, we encounter issues that are beyond the corrective action of management and require the action of either another agency, outside party, or a change in the method by which the Commonwealth conducts its operations to improve efficiency, reduce risk, and enhance its operations. This audit risk alert requires the attention of the Secretary of Commerce and Trade and multiple agencies.

In our previous report, due to its limited number of administrative staff and the pending retirement of its Director of Administration, we recommended Business Assistance seek out an opportunity to work with another agency to establish a central back office operation to provide accounting, budgeting, human resources, and procurement services. Since our last audit, Business Assistance has outsourced its human resources function to the Department of Human Resource Management. In addition, due to the retirement of its Director of Administration, Business Assistance is using some of its staff normally assigned to the Virginia Small Business Financing Authority to assist with accounting functions. Further, Business Assistance approached another agency concerning consolidating back office operations, but the agency indicated it did not have excess capacity to assume these responsibilities.

We recommend the Secretary of Commerce and Trade review the agencies within the Commerce and Trade Secretariat and determine how to most effectively combine back office operations for the agencies with a limited number of administrative staff to enhance internal controls and gain risk management benefits.

Complete the Agency's Information Security Program – Internal Control and Compliance Finding

Business Assistance, in coordination with the Department of Accounts, has improved its information security program. During the fiscal year, Business Assistance developed and formalized their Information Technology Security Policy, and in August 2010 they completed the development of their disaster recovery plan.

The disaster recovery plan is a key component that is required to be fully compliant with the Commonwealth's information security standards. Therefore, now that Business Assistance has completed the development of the plan, we recommend Business Assistance take the necessary steps to fully implement it.

Current Year Finding

Develop and Strengthen Business Assistance Agency Specific Policies

During our audit, we noted that while Business Assistance had documented policies and procedures for many areas of its operations, it did not have complete policies and procedures covering human resources, state vehicle and fuel card usage, and document retention. In addition, we noted Business Assistance did not maintain all of its policies and procedures in a central location accessible by all staff, such as its internal network, or periodically communicate its policies and procedures to its staff. The risk of fraud and the potential for loss or unauthorized misuse of State resources and erroneous transactions increases without documented procedures that all agency employees follow.

In response to our recommendation, Business Assistance has developed and documented agency specific internal policies and procedures in the areas mentioned above. Business Assistance has communicated and provided training to staff on the new policies and procedures and placed them in a central location accessible by its staff. We recommend Business Assistance send periodic communications related to its policies and procedures to all employees and enforce compliance of all policies and procedures.

AGENCY BACKGROUND

Business Assistance provides a variety of services to business and industry including financial assistance, training, and counseling. Business Assistance has three operational areas: Virginia Jobs Investment Program, Business Information Services, and the Virginia Small Business Financing Authority. An administrative team supports the three operational areas.

Virginia Jobs Investment Program

The Virginia Jobs Investment Program offers economic development incentives to businesses creating new jobs or expanding the number of existing jobs. The program pays a portion of the recruiting and training costs associated with newly created jobs for new and expanding companies, and training for employees at qualifying companies that are changing technologies or processes.

Business Information Services

The Business Information Services Division administers the Procurement Assistance Program, which helps companies to increase their sales to the State. Business Assistance also offers one-to-one business builder counseling and business sales growth seminars. The Division hosts seminars, supports the seminars of other partners, provides one-on-one sessions in numerous cities across the state, and provides vendor/buyer networking opportunities. This group services all businesses, but especially focuses on small, women- and minority-operated businesses.

The Division provides technical support for business startup and entrepreneur development. It leads the Entrepreneur Express program statewide and works with other federal, state, and local partners to deliver approximately 50 programs each year. The programs identify new and early stage businesses, link entrepreneurs with resources, and encourage them to take the next step to grow their business. Other initiatives include the management of the Entrepreneur Advisory Team and the Existing Business Retention and Expansion forum, and the creation of the Business One Stop system.

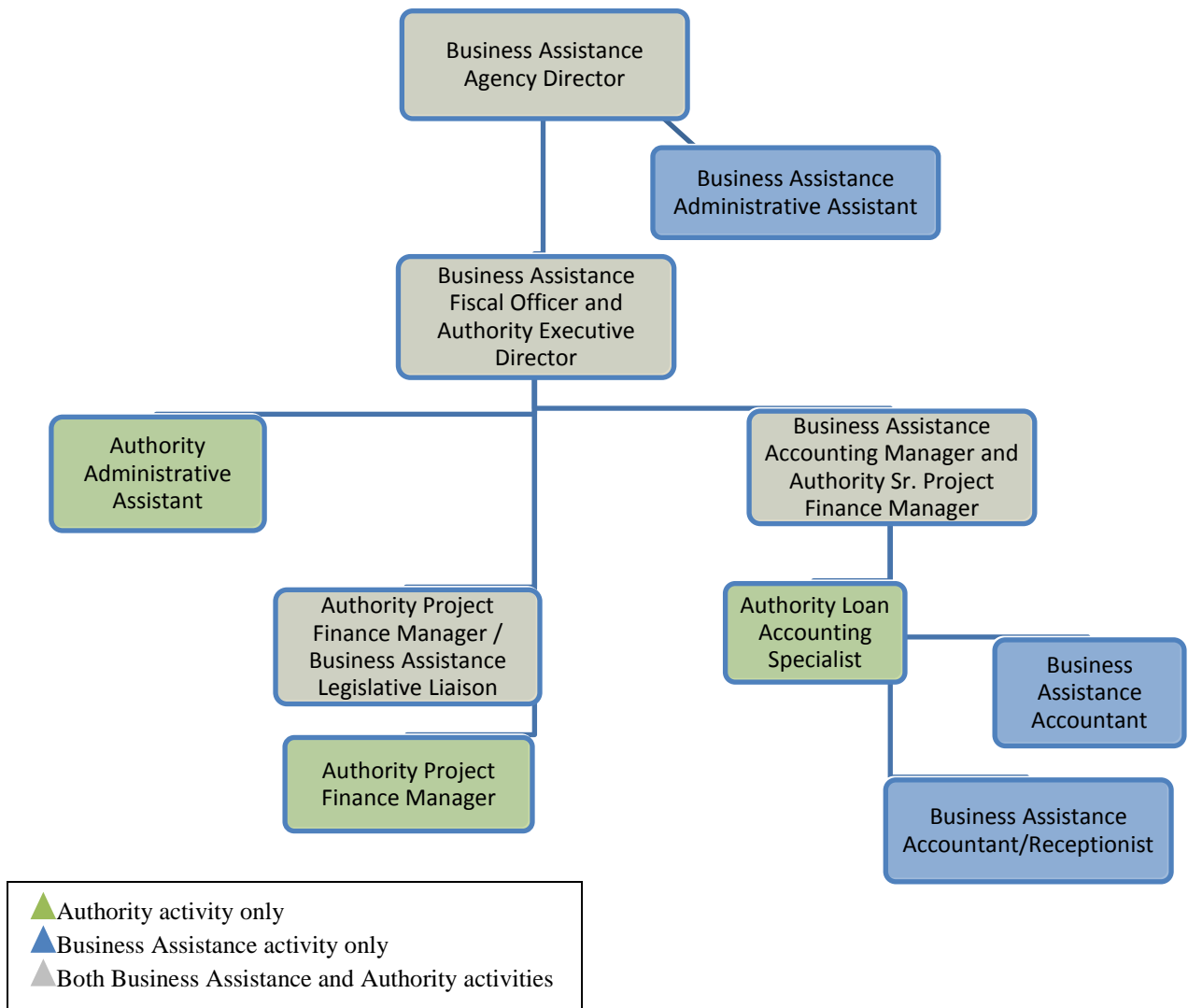
Virginia Small Business Financing Authority

The Authority has been in existence since 1984 and provides financial assistance to Virginia based businesses through bond issuances, direct loans, loan guarantees, and portfolio loan loss reserves; as well as other technical assistance. The Governor appoints the eleven members of the Authority's Board of Directors. We issue a separate report on the Authority's financial activities. During fiscal years 2009 and 2010, Business Assistance covered \$171,035 and \$153,450, respectively, of the Authority's expenses.

Administrative

The Administrative Division provides executive management and fiscal, budgetary, information systems, public relations, and educational support to the other divisions within Business Assistance, as well as the Authority. The Division includes staff of the Virginia Small Business Financing Authority, who are employees of Business Assistance. Business Assistance provides space for the Small Business Financing Authority's staff and pays certain administrative expenses, to the extent that Business Assistance has the resources available to assume these costs.

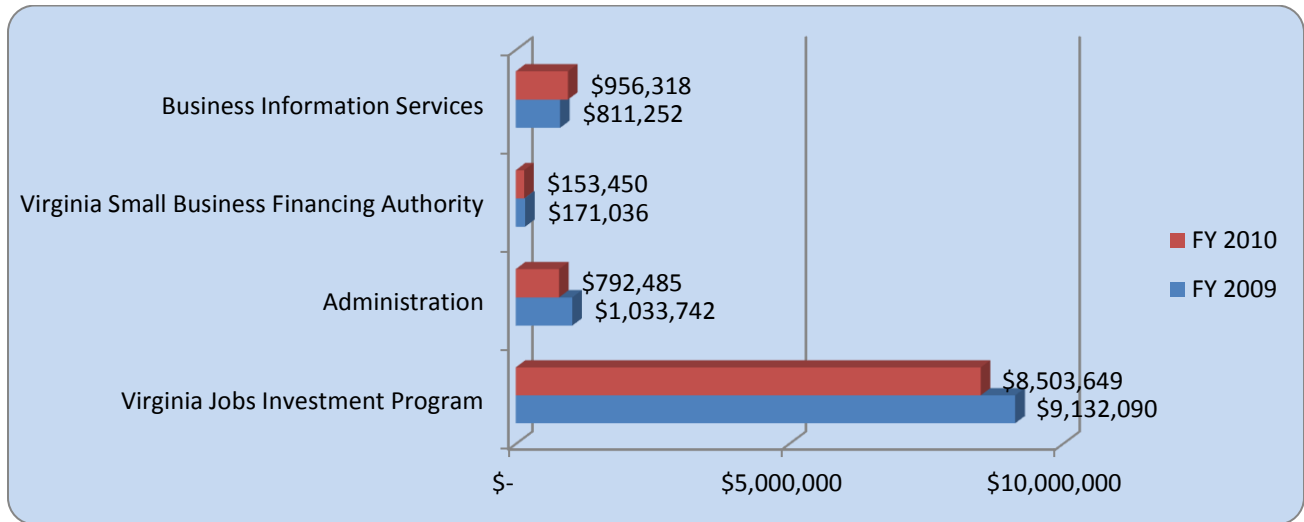
Below is an organization chart of Business Assistance's Administrative Division. As shown in the organization chart, most employees have responsibility for either Business Assistance or Small Business Financing Authority activities. However, there are some employees assigned to both Business Assistance and Authority activities. In addition to the staff of the Administrative Division reflected below, two Virginia Jobs Investment Program Division staff serve as information technology resources for Business Assistance.



FINANCIAL HIGHLIGHTS

Business Assistance's primary funding source is General Fund appropriations. Below is a summary of agency expenses by division for fiscal years 2009 and 2010. The expenses for the Authority represent only the portion that Business Assistance covered during the year.

Expenses by Division for Fiscal Years 2009 and 2010



Source: Commonwealth Accounting and Reporting System

The following schedule summarizes the Business Assistance's original budget, final budget, and actual expenses for fiscal years 2009 and 2010 by funding source. The decrease from the original to final budget reflects the Governor's Budget Reduction Plan for the General Fund. The increase from original to final budget in the Federal fund is for the Workforce Investment Act grant, which Business Assistance uses for its training programs. The increase from the original to final budget in the Comprehensive Permitting Fund is to support the Business One Stop website, which became operational during the year.

Analysis of Budgeted and Actual Expenses Fiscal Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General Fund	\$11,223,521	\$10,891,390	\$10,891,083
Special Revenue Fund	300,253	100,253	15,148
WIA Federal Fund	-	271,600	241,889
	<u>\$11,523,774</u>	<u>\$11,263,243</u>	<u>\$11,148,120</u>

Analysis of Budgeted and Actual Expenses
Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General Fund	\$10,471,230	\$10,134,313	\$ 9,920,847
Special Revenue Fund	328,648	32,648	8,989
WIA Federal Fund	-	310,288	254,669
Comprehensive Permitting Fund	<u>-</u>	<u>225,000</u>	<u>221,397</u>
	<u>\$10,799,878</u>	<u>\$10,702,249</u>	<u>\$10,405,902</u>

Transfer payments reflect monies paid to businesses through various business assistance programs and account for approximately \$7 million, or about 65 percent, of fiscal years 2009 and 2010 expenses. The majority of the remaining expenses, or about 28 percent, are for personnel costs.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 27, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Business Assistance (Business Assistance)** for the years ended June 30, 2009, and June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Business Assistance's internal controls, test compliance with applicable laws and regulations, and review corrective actions for audit findings included in the prior audit report.

Audit Scope and Methodology

Business Assistance's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Operating policies and procedures
- Expenses, including payroll and payments to businesses for assistance
- Information system security

We performed audit tests to determine whether Business Assistance's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included gaining an understanding of processes and controls by reviewing current policies and procedures, making inquiries of management and appropriate personnel, inspection of documents, records, and contracts, and observation of Business Assistance's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Business Assistance properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Business Assistance records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations." We found that Business Assistance either made progress or resolved audit findings reported in the prior audit report as indicated in the *Status of Prior Year Findings* in the section entitled "Audit Findings and Recommendations."

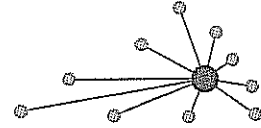
Exit Conference and Report Distribution

We discussed this report with management on November 15, 2010. Management's response has been included at the end of this report. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH/clj



VIRGINIA DEPARTMENT OF BUSINESS ASSISTANCE

Connecting Businesses with Resources

November 16, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
Commonwealth of Virginia
The James Monroe Building
101 North 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Mr. Kucharski:

I have reviewed your comments on the the prior year's audit. I appreciate the recognition of the progress the agency has made in the areas of the administrative service arrangement, the information security program, the maintenance of official records, and procedures documentation. I especially appreciate your comment regarding the need for direction from the Secretary of Commerce & Trade regarding an administrative service arrangement. As you know, the agency has made every effort to comply with the auditor's request and has used internal resources to mitigate any agency risk efficiently. I also appreciate the recognition of DBA's efforts to develop and strengthen agency-specific policies while the audit was still in progress. While I recognize your need to include this finding in our audit, as it was brought to our attention by your auditors, please know that this finding has now been addressed with new policies written, others revised, and all communicated to all employees. Further, DBA will implement a schedule of keeping all staff updated periodically throughout the year on the policies in effect and will enforce all policies in a fair and timely fashion.

Sincerely,



Peter S. Su
Director

Cc: Scott E. Parsons
Agency Fiscal Officer, Virginia Department of Business Assistance

DEPARTMENT OF BUSINESS ASSISTANCE

Agency Officials

Peter Su
Agency Director